



CENTRAL ARIZONA PROJECT

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September 20, 2005

J. Tyler Carlson
Regional Manager
Western Area Power Administration
615 S. 43rd Avenue
P.O. Box 6457
Phoenix, Arizona 85005

Subject: Proposed 115/230-kV Transmission Service Rates, Central Arizona Project

Dear Tyler:

The Central Arizona Water Conservation District submits the following comments on Western Area Power Administration's proposed rates for transmission service on the Central Arizona Project 115-kV and 230-kV transmission lines, which are scheduled to go into effect on January 1, 2006.

1. **Inclusion of CAWCD O&M Costs in Rate.** The handout provided by Western at the July 22, 2005 public information forum indicates that "CAWCD expenses" will be included in the annual transmission revenue requirement that is used to establish the CAP transmission rate. CAWCD strongly supports including such expenses—which are CAP transmission system operation and maintenance costs incurred directly by CAWCD—in the rate-setting process. Western's July 22 handout estimates annual "CAWCD expenses" at \$265,316.31. That figure represents the annual amount paid by CAWCD for O&M of the McCullough Substation, which is used by CAP to serve its pump loads as well as by other CAP transmission system customers. But there are other CAP transmission system O&M costs incurred by CAWCD, in addition to the McCullough O&M charge, that are not reflected in Western's handout. We look forward to working with you to identify and quantify those additional CAWCD expenses for inclusion in the CAP transmission rate beginning in 2007.
2. **Allocation of Western Expenses to the CAP Transmission System.** Over the past several months we have been working with your staff to understand the method and basis on which certain Western O&M costs are allocated to the CAP transmission system. That process, as well as an audit of Western performed by CAWCD's internal auditor, revealed errors in Western's allocation that must be corrected. Specifically, the CAP transmission line miles and SCADA point

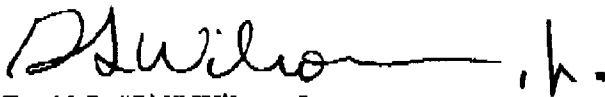
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values that are used to allocate STUDM and RENTM, respectively, are too high and should be adjusted as described in the audit report that CAWCD provided to Western on August 26, 2005. That adjustment will affect the annual transmission revenue requirement that is used to establish the CAP transmission rate.

3. **Inclusion of Capital Additions and Replacements in Rate.** The CAP transmission rate includes an "investment" component calculated to produce sufficient revenue to cover annual amortization costs of the CAP transmission system. Those amortization costs include the principal and interest needed to repay the original cost of constructing the CAP transmission system as well as capital additions and replacements. Western's July 2005 rate adjustment brochure states that no capital additions or replacements are projected for FY2006 through FY2010. That is not correct. We understand that CAP will be charged approximately \$700,000 in 2006 for capital replacements at the McCullough Substation. We also anticipate annual costs for capital additions or replacements in 2007 and beyond to average at least \$500,000. Those costs should be included in the CAP transmission rate. As these ongoing capital addition and replacement costs are not subject to the same interest rate and repayment term as the original CAP construction costs, we recommend that they be tracked separately in the CAP transmission rate methodology—e.g., a "project" component for the original investment and an "additions and replacements" component for ongoing capital expenditures (as shown on page 11 of Western's rate brochure). Such a distinction will also be useful as CAWCD, Western and the Bureau of Reclamation work to develop a new master agreement as to shared responsibilities for the CAP transmission system.

Western's July 2005 rate adjustment brochure states that Western may revise the proposed rates during and after the consultation and comment period based on comments received. CAWCD encourages Western to modify the proposed CAP transmission rate for 2006 to correct the allocation errors discussed in item 2 above and to include the capital addition and replacement costs described in item 3. If we can offer any assistance in that regard, please let us know.

Sincerely,



David S. "Sid" Wilson, Jr.
General Manager

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813.04.01

cc: Jack Murray, Rates Team Lead, DSW
Robert Johnson, Bureau of Reclamation

**CAP**
CENTRAL ARIZONA PROJECT**FAX COVER**

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Date: September 22, 2005To: Jack MurrayCompany: WAPAPhone: 602-605-2442Fax: (602)-605-2630From: Tom McCannPhone: (623) 869-2343You should receive 3 page(s) including this cover sheet.

Comments: _____

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